

Internal Revenue Service

Department of the Treasury

District  
Director

1100 Commerce St., Dallas, Texas 75210

Date: OCT 15 1996

Employer ID Number:

Contact:

Telephone Number:

Refer Reply To:

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code.

The information submitted indicates you were incorporated on [REDACTED] in [REDACTED]. Your Articles of Incorporation indicate that the initial character of the organization's affairs is cooperative advertising.

You intend to provide advertising for [REDACTED] franchises in the [REDACTED] Area. The franchises provide tax and accounting services to the public. There are [REDACTED] franchises in the [REDACTED] area. [REDACTED] of the franchises are members of the organization. Each member is to contribute an equal amount of funds to pay for the advertising, which will mainly be in the form of mailings. The advertising will contain the names of the members.

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(a) and reads, in part, as follows:

"(6) Business leagues, chambers of commerce, real estate boards, boards of trade. \*\*\*. not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Section 1.501(c)(6)-1 of the regulations provides as follows:

"A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league. \*\*\*"

In National Muffler Dealers Association, Inc. v. United States, 140 U.S. 172, 477-479 (1979) a trade organization for muffler dealers was not exempt. It confined its membership to dealers franchised by a particular company and its activities to the business of that company. The court held that Midas Muffler franchisees do not constitute a "line of business" and that tax exemption as a business league "is not available to aid one group in competition with another within an industry".

Revenue Ruling 64-315, 1964-2 C.B. 147 states that an association of merchants whose businesses constitute a shopping center expends its funds and engages exclusively in advertising in various newspapers and on television and radio in order to attract customers to the shopping center. This advertising contained the names of member merchants and their merchandise. These activities constitute the performance of particular services for members rather than an activities directed to the improvement of business conditions generally as required by the applicable regulations. The organization was not entitled to exemption from Federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code.

Revenue Ruling 67-77, 1967-1 C.B. 138 states that an organization composed of dealers in a certain make of automobile in a designated area is organized and operated for the primary purpose of financing general advertising campaigns to promote, with funds contributed by dealer members, the sale of that make of automobile. It was determined that by advertising only the make of automobile sold by its members the organization was performing particular services for its members rather than engaging in activities for the improvement of business conditions in the automotive industry as a whole and was not entitled to exemption from Federal income tax as a business league under section 501(c)(6) of the Internal Revenue Code.

On the basis of the information supplied, we have concluded that you are not operated to improve the business conditions of one or more lines of business. The organization was formed for the purpose of doing cooperative advertising for your members.

Your organization is like the organization in Revenue Ruling 64-315. The mailings by which your organization advertises the names of its members is the only purpose and activity of the organization. Such activity constitutes the performance of particular services for members rather than an activity directed to the improvement of business conditions generally.

Your organization is also like the organization in Revenue Ruling 67-77. The primary purpose of your organization is to finance advertising, with funds contributed by members, to specifically promote the use of your members' services. The organization is performing particular services for its members rather than an activity directed to the improvement of business conditions generally.

Finally, your organization is like the organization described in National Muffler Dealers v. United States. The organization confines its membership to businesses franchised by a particular company and its activities to promoting the business of that company. Since franchisees do not constitute a "line of business", the organization is not a business league.

Accordingly, it is held that you are not entitled to exemption from Federal income tax as an organization described in section 501(c)(3) of the Internal Revenue Code, and you are required to file Federal Income Tax Returns on Form 1120.

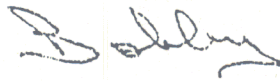
If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of the report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,



Bobby E. Scott  
District Director

Enclosures:  
Publication 892  
Form 6018